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## Drug Giant Merck Settles Tax Evasion Case For \$2.3 Billion

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American pharmaceutical giant Merck & Co. has agreed to pay \$2.3 billion to the Internal Revenue Service, settling a three-year tax evasion dispute for the tax years 1993-2001.

IRS records say Merck & Co. held offshore accounts in Bermuda for several years to hold patents for two of its drugs, and then used the royalties from these patents as tax deductions in the United States. The Bermuda tax shelter meant Merck was essentially deducting money already used to pay itself.

The drugs involved were the popular and extremely profitable cholesterol medicines Zocor<sup>®</sup> and Mevacor<sup>®</sup>.

The settlement with Merck is less than the \$3.8 billion the IRS was seeking, but it avoids a lengthy tax fraud lawsuit. It is also the second-largest tax settlement ever for the IRS.

The largest settlement in history was for a whopping \$3.4 billion from another pharmaceutical megacompany, British-based GlaxoSmithKline.

The agreement will result in a payment to the government of approximately \$2.3 billion in federal tax, net interest and penalties, and resolves all issues that had been in dispute between the parties for the tax years 1993-2001. Merck reported \$22.6 billion in sales for 2006, and said it does not expect its bottom line to be affected by the settlement.

Among the significant issues resolved were three issues that resulted from Merck's use of minority equity interest financing transactions. The execution of these agreements should facilitate the ability of the IRS and the taxpayer to move forward and effectively address tax issues arising in subsequent examination years.

Merck & Co. is an American company with German origins – Merck came from Germany, but was seized by the United States and forcibly split from its parent company at the end of World War I. Today, Merck & Co., Inc. has about 70,000 employees in 120 countries and 31 factories worldwide. Its products are sold in more than 200 countries.

SOURCE: <http://www.irs.gov/newsroom/article/0,,id=167773,00.html>